

Message Text

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SUBJ: MAJOR PROJECT: PETROCHEMICAL INDUSTRY

REF: (A) 76 CARACAS 10252, (B) 77 CARACAS A-072, ET AL

1. A WELL INFORMED BUSINESS SOURCE HAS TOLD THE AMBASSADOR THAT THE GOV IS PLANNING TO "OPEN" THE PETROCHEMICAL INDUSTRY TO PRIVATE ENTERPRISE. THERE ARE NO DETAILS AT THIS POINT BUT THE PERFORMANCE OF THOSE AREAS OF THE INDUSTRY CONTROLLED WHOLEY OR SUBSTANTIALLY BY THE GOV HAS BEEN MEDIOCRE AT BEST AND WOULD LEND CREDENCE TO THIS IDEA. AFTER MORE THAN TWO DECADES OF EFFORT, THE DECISION MAKERS REPORTEDLY HAVE COME TO THE CONCLUSION THAT INTERNATIONAL CONCERNS WITH EQUITY INVESTMENT AND COMPETING IN TRADITIONAL STYLE WOULD BE A BETTER SOLUTION. IN A SIMILAR VEIN, AD PRESIDENTIAL CANDIDATE PINERUA ORDAZ LAST WEEK IMPLICITLY CRITIZED THE POOR PERFORMANCE OF SEVERAL STATE-OWNED ENTERPRISES IN STATING THAT HIS GOVERNMENT WOULD TURN OVER SUCH MONEY-LOSERS AS SUGAR REFINERIES, TRANSPORT COMPANIES AND HOTESL TO THE PRIVATE SECTOR.

2. IN AN ATTEMPT TO FLESH OUT WHAT COULD WELL BE THE FIRST INDICATION OF A MAJOR POLICY SHIFT IN THE PETROCHEMICAL SECTOR,
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EMBOFFS CALLED ON A KNOWLEDGEABLE SOURCE IN VENEZUELAN ASSOCIATION OF CHEMICALS PRODUCERS (ASOQUIM). HE SAID THAT HIS ATTITUDE TOWARD THE PETROCHEMICAL AND DHEMICAL SECTORS IS "OPTIMISTIC FOR THE FIRST TIME IN MANY YEARS." HE PRAISED HIGHLY THE MANAGEMENT AT PEQUIVEN AND ADDED THAT THE NEW MANAGEMENT WOULD IMPLEMENT RATIONAL PROGRAMS AIMED AT THE RECOVERY OF THE GOV-OWNED PETROCHEMICAL INDUSTRY. THOSE

PROGRAMS WOULD CENTER ON THE REPAIRING AND OPERATION ON THE OLEFINS PLANT AT EL TABLAZO AND THE AMMONIA AND SULFURIC ACID PLANTS AT MORON. WHEN THAT WORK IS COMPLETED (IT COULD BE AS EARLY AS THE FIRST HALF OF CY 1979) PEQUIVEN WILL BEGIN TO FOCUS ON THE ESTABLISHMENT OF NEW BASIC AND DOWNSTREAM INDUSTRIES AT EL TABLAZO. PROJECTS WHICH GOV STUDIES HAVE INDICATED AS APPROPRIATE AT EL TABLAZO INCLUDE HIGH-DENSITY POLYETHYLENE, SBR RUBBER, ACETONE, POLYPROPYLENE, CAUSTIC SODA, AND OLEFINS.

3. THE SAME ASOQUIM SOURCE SAID THAT FOREIGN FIRMS MAY WELL HAVE A PLACE IN THE FIELD. BEST STRATEGY FOR FOREIGN FIRMS WITH EXPERIENCE AND EXPERTISE IN A PARTICULAR AREA WOULD BE TO FIRST QUIETLY STUDY THE VENEZUELAN MARKET, THEN PRESENT PEQUIVEN WITH A JOINT VENTURE PACKAGE BASED ON LOCAL NEEDS AND POSSIBILITIES.

4. EMBASSY COMMENT: IT IS NOT CLEAR WHETHER "OPENING" THE VENEZUELAN PETROCHEMICAL INDUSTRY TO PRIVATE ENTERPRISE WOULD INCLUDE PARTICIPATION BY THE FOREIGN PRIVATE SECTOR IN BASIC PETROCHEMICAL PRODUCTION FACILITIES. UNDER THE NOW-DEFUNCT PETROCHEMICAL PLAN (REF A) THESE WERE TO BE 100 PCT STATE-OWNED. SO-CALLED SECONDARY OR DERIVATIVE PRODUCTS WERE TO BE PRODUCED BY GOV AND PRIVATE JOINT VENTURES, WHILE PRODUCTS IN THE TERTIARY SECTOR (CLOSEST TO THE CONSUMER) WERE TO BE ALLOCATED TO PRIVATE ENTERPRISE ALONE, INCLUDING FOREIGN INVESTORS. CERTAINLY FOR THEIR EXISTING BASIC CHEMICAL FACILITIES PEQUIVEN HAS SHOWN A LIMITED OFFICIAL USE

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WILLINGNESS TO SEEK OUTSIDE HELP, WITNESS THEIR NEGOTIATIONS WITH PHILLIPS (USA) FOR AN ARRANGEMENT TO RENOVATE AND MANAGE THE OLEFINS PLANT AT EL TABLAZO. EMBASSY AGREES WITH SUGGESTION CONTAINED PARA THREE ABOVE BUT ALSO SUGGESTS THAT NOT ONLY PEQUIVEN BUT ALSO HIGH-LEVEL POLITICAL OFFICIALS IN THE PRESENT PEREZ ADMINISTRATION COULD WELL BE RECEPTIVE TO PROMPT AND FAIRLY BROAD INVESTMENT/TECHNICAL ASSISTANCE PROPOSALS FROM U.S. COMPANIES.
VAKY

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